

## Message Text

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ACTION EUR-10

INFO OCT-01 SS-14 ISO-00 SPC-01 EB-03 IO-03 STR-01 NEA-07

CIEP-01 CEA-01 OMB-01 TRSE-00 NSC-10 CIAE-00 INR-10

NSAE-00 RSC-01 PRS-01 USIA-04 DRC-01 NSCE-00 EA-13

AGR-03 FEA-01 /087 W

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R 222142Z JAN 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9879

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01141

LIMDIS

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: FRG FINANCE STATE SECRETARY POEHL COMMENTS  
ON FRENCH FLOAT

1. SUMMARY. IN A CONVERSATION WITH ME THIS MORNING,  
FINANCE STATE SECRETARY POEHL MADE FOLLOWING PRINCIPAL  
COMMENTS ON FRENCH DECISION TO FLOAT FRANC: A) IT  
CAME AS A SURPRISE TO FRG, ESPECIALLY SO SOON AFTER  
ROME DISCUSSIONS BETWEEN SCHMIDT AND GISCARD, WHO GAVE  
NO INKLING OF IMPENDING DECISION; B) DECISION  
REPRESENTED TOTAL DISREGARD OF COMMUNITY INTERESTS AND  
OF FRANCE'S PARTNERS IN THE SNAKE IN FAVOR OF BRAZEN  
POLICY TO ENHANCE COMPETITIVENESS FRENCH EXPORTS;  
C) FRG IS PREPARED TO REMAIN IN SNAKE, ALTHOUGH IT DOES  
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NOT CONSIDER CONTINUED EXISTENCE OF IT ESSENTIAL FROM

STANDPOINT OF ITS OWN INTERESTS; D) FRENCH DECISION WILL HAVE FAR-REACHING NEGATIVE EFFECTS ON COHESION OF EUROPEAN COMMUNITY AND IN SUCH SPECIFIC AREAS AS THE CAP, THE EMU, AND REGIONAL FUND; E) FRENCH FLOAT--COMING AFTER UK AND ITALIAN FLOATS AND ON THE HEELS OF RECENT JAPANESE DEVALUATION--EACH REPRESENTING DE-FACTO COMPETITIVE DEVALUATIONS, WILL LEAD TO THE EMERGENCE OF TWO MAJOR MONETARY BLOCS, I.E., A DOLLAR AND D-MARK BLOC. POEHL ALSO SAID THAT FRG IS INTERESTED IN SEEING A BETTER DOLLAR/D-MARK RATE THAN THE ONE CURRENTLY PREVAILING. POEHL ADDED, FRG NOT DISPOSED TO INTERVENE MASSIVELY BY SELLING DOLLARS, BUT NEITHER DOES IT WISH TOO LARGE A DEVALUATION OF THE D-MARK. END SUMMARY.

2. I MET TODAY WITH FINANCE STATE SECRETARY POEHL FOR A DISCUSSION OF THE MONETARY SITUATION AFTER THE FLOATING OF THE FRENCH FRANC. POEHL SAID THAT THE FRG WAS SURPRISED BY THE UNEXPECTED MOVE OF THE FRENCH GOVERNMENT, INASMUCH AS GISCARD HAD GIVEN NO INKLING OF THE IMPENDING DECISION AT LAST WEEK'S MEETING IN ROME. IN FACT, IN A DISCUSSION OF THE PROSPECTIVE IMPACT OF INCREASED OIL PRICES ON THE FRENCH BALANCE OF PAYMENTS, FINANCE MINISTER SCHMIDT HAD OFFERED GISCARD \$3 BILLION, OVER AND ABOVE THE FRG'S COMMITMENT UNDER THE BASEL AGREEMENT, TO SUPPORT THE FRANC WITHIN THE SNAKE. THIS OFFER WAS MADE DESPITE THE BUNDESBANK'S "LOSS" OF \$3 BILLION IN RESERVES DURING NOVEMBER. POEHL HIMSELF THOUGHT SCHMIDT'S OFFER TO BE TOO GENEROUS. GISCARD DECLINED THE OFFER AND FURTHER CONTENTED THAT PARIS WAS NOT CONTEMPLATING UNILATERAL DEVALUATION OF THE FRANC.

3. IN POEHL'S OPINION THE DECISION OF THE FRENCH CABINET TO FLOAT WAS PROBABLY TAKEN AGAINST THE ADVICE OF GISCARD, WHO SEEMS TO HAVE BEEN SWEEPED ASIDE. THE FRG, POEHL SAID, HAS GENERALLY NEGATIVE FEELINGS ON THE FRENCH DECISION TO FLOAT. ON THE ONE HAND IT IS FELT THAT THE MOVE DISREGARDED THE BROADER COMMUNITY INTERESTS, DICTATED BY BRAZEN ECONOMIC NATIONALISM AND CONFIDENTIAL

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A "FRENCH FIRST" POLICY. THE BEST THAT CAN BE SAID ABOUT THE FRENCH DECISION IS THAT IT WAS PREVENTIVE, DESIGNED TO AVERT AN ANTICIPATED LARGE DRAIN ON RESERVES. ON THE OTHER HAND, POEHL THOUGHT THAT THE FRENCH DECISION WILL IN THE END TURN OUT TO BE A MISTAKE AND THAT THE HOPED-FOR ADVANTAGES FROM THE DE-FACTO UNILATERAL DEVALUATION WILL NOT MATERIALIZE. POEHL SAID THAT THE FRENCH DECISION IS BASED ON A

NARROW PERCEPTION OF THE BENEFITS FOR FRENCH EXPORTS  
DERIVED FROM DEVALUATION, WITHOUT DUE REGARD TO THE  
OVERALL EFFECT ON THE TERMS OF TRADE IN A PERIOD OF  
GENERAL INFLATION. THE HIGHER PRICES FOR ESSENTIAL  
IMPORTS, INCLUDING CRUDE OIL, WILL SUBSTANTIALLY  
NULLIFY THE ADVANTAGES OF THE MORE COMPETITIVE FRENCH  
EXPORTS. THIS, POEHL ADDED, SEEMS TO HAVE BEEN THE  
EXPERIENCE OF THE FRG, IN REVERSE, FOLLOWING RECENT

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 01141

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D-MARK REVALUATIONS WHICH LED TO A RECORD SURPLUS ON  
TRADE ACCOUNT.

4. POEHL FURTHER SAID THAT DESPITE THE DROP-OUT OF  
THE OTHER MAJOR ECONOMIC POWER (FRANCE) FROM THE  
SNAKE, THE FRG IS PREPARED TO STAY IN WITH THE OTHER  
REMAINING MEMBERS. THE FRG WOULD HAVE BEEN PREPARED

TO PERMIT THE SNAKE TO DISAPPEAR, BUT THE DEMISE OF THE SNAKE WOULD HAVE PRESENTED THE SMALLER MEMBER COUNTRIES WITH CERTAIN POLITICAL PROBLEMS. HE BELIEVED THAT THE SNAKE WAS STILL VIABLE SINCE, WITH THE POSSIBLE EXCEPTION OF DENMARK, THE ECONOMIES OF THE REMAINING MEMBERS ARE FAIRLY HOMOGENEOUS. UNDENIABLY, HOWEVER, HE ADDED, THESE COUNTRIES WILL COME UNDER THE MONETARY DOMINANCE OF ITS MOST POWERFUL REMAINING MEMBER, THE FRG.

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5. POEHL WAS RATHER PESSIMISTIC ABOUT PRESENT TRENDS IN THE INTERNATIONAL MONETARY SPHERE, WHICH HAD BEEN PROVOKED BY THE OIL CRISIS. THE FIRST MAJOR MOVE TOWARD UNILATERAL DEVALUATION WAS TAKEN BY JAPAN, ALTHOUGH IN JAPAN'S CASE THERE WAS GREATER JUSTIFICATION THAN WAS THE CASE IN FRANCE. WITH INCREASED COSTS OF IMPORTS, HE ANTICIPATED THAT PRICES IN FRANCE WILL RISE BY AT LEAST 15 PERCENT, FURTHER DETERIORATING ITS TERMS OF TRADE. THE UP-SHOT OF THESE DE-FACTO COMPETITIVE DEVALUATIONS, WHICH ALSO APPLY TO ITALY AND THE UK, WILL BE THAT TWO MAJOR MONETARY BLOCS WILL EMERGE: A DOLLAR BLOC, COMPRISING BY FAR THE STRONGEST GROUP OF COUNTRIES (U.S., CANADA AND OTHERS), AND A D-MARK BLOC, WHICH WILL HAVE COME ABOUT WITHOUT THE FRG HAVING WISHED IT. A COROLLARY RESULT WILL BE THAT THESE BLOCS WILL ATTRACT THE SURPLUS ARAB MONETARY HOLDINGS FOR INVESTMENT. HE ADDED, AND "WHY NOT"?

6. COMMENTING UPON THE EFFECT OF THE FRENCH FLOAT AND THE REMAINING TRUNCATED SNAKE ON THE EUROPEAN COMMUNITY, POEHL SAID: A) IT MARKS THE END OF THE ECONOMIC AND MONETARY UNION FOR THE FORESEEABLE FUTURE AND MAKES THE WHOLE REGIONAL FUND ISSUE PROBLEMATIC; B) THERE IS A RISK THAT THE COMMON AGRICULTURAL POLICY (CAP) MAY COLLAPSE UNDER THE PRESSURES; C) THERE IS THE FACT FOR EVERYONE TO SEE THAT NARROW NATIONAL ECONOMIC INTERESTS HAVE TAKEN PRECEDENCE OVER COMMUNITY INTERESTS. A TANGENTIAL, BUT NO LESS IMPORTANT SIDE EFFECT, IS A CERTAIN CLOUD THAT WILL OVERHANG THE PLANNED WASHINGTON ENERGY CONFERENCE. HE ADDED IT WAS NOT YET CLEAR WHETHER FRANCE WILL ATTEND.

7. COMMENTING ON THE D-MARK/DOLLAR EXCHANGE RELATIONSHIP, POEHL SAID THAT THE FRG IDEALLY WOULD LIKE A BETTER RATE FOR THE MARK THAN CURRENTLY PREVAILS, ADDING THAT HE WAS AWARE OF THE DIFFERENCES BETWEEN BONN AND WASHINGTON ON THE QUESTION OF RESPECTIVE

ROLES IN THE INTERVENTION PROCESS. THE FRG, POEHL  
SAID, IS NOT DISPOSED TO INTERVENE MASSIVELY, BY  
SELLING DOLLARS, GIVEN THE FRG'S VIEW OF THE ROLE OF  
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ITS OWN, ADMITTEDLY LARGE, RESERVES. IT SEES THEM  
BOTH AS A NECESSARY CUSHION AND AS MORE EPHEMERAL THAN  
DOES WASHINGTON, ESPECIALLY IN THE LIGHT OF THE  
ANTICIPATED LARGE PAY-OUTS FOR CRUDE OIL IMPORTS IN  
THE NEXT FEW YEARS. THE OECD HAS EVEN PROJECTED A  
BOP DEFICIT FOR THE FRG IN 1974, ALBEIT POEHL DOES NOT  
ACCEPT THIS PROGNOSIS WITHOUT RESERVATION. IN CON-  
CLUSION, HOWEVER, POEHL SAID, THE FRG IS NOT INTERESTED  
IN TOO LARGE A DEVALUATION OF THE D-MARK, VIEWING IT AS  
A TWO-EDGED SWORD FROM THE STANDPOINT OF THE TERMS OF  
TRADE.

8. COMMENT: THE INITIAL GERMAN REACTION TO THE FLOATING  
OF THE FRANC IS CLEARLY A SHARP ONE, NOT ONLY BECAUSE OF  
THE ECONOMIC CONSEQUENCES BUT BECAUSE OF WHAT ARE FEARED  
TO BE PROFOUND POLITICAL CONSEQUENCES FOR EUROPE. IF THE  
EUROPEAN COUNTRIES ARE TO GO IT ALONE, THE FEDERAL  
REPUBLIC WILL BE IN A BETTER POSITION THAN MOST TO PRO-  
TECT ITS INTERESTS, BUT THIS IS A PROSPECT--SEEMINGLY  
OPENED UP BY THE FRENCH ACTION--WHICH FEW GERMANS,  
EXCEPT INVETERATE ENEMIES OF THE COMMUNITY WOULD WELCOME.  
GERMAN EFFORTS IN THE WEEKS TO COME ARE LIKELY TO BE  
MAINLY IN THE NATURE OF AN ATTEMPTED RESCUE OPERATION,  
BUT THE CONCRETE MEASURES TO BE PROPOSED OR TAKEN HAVE  
NOT YET EMERGED AND THEY MAY BE DIFFICULT TO CONJURE UP.  
HILLENBRAND

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## Message Attributes

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**To:** STATE  
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